# INTERNATIONAL ECONOMIC REVIEW

November 1988

## In This Issue:




Office of Economics

U.S. International Trade Commission

Washington, DC 20436

## OFFICE OF ECONOMICS

John W. Suomela, *Director*

The *International Economic Review* is a monthly staff publication of the Office of Economics, U.S. International Trade Commission. The *Review* is not an official Commission publication: the opinions and conclusions it contains are those of the authors, and do not necessarily reflect the views of the Commission or of any individual Commissioner. The *Review* is produced as part of the Commission's international trade monitoring program. Its purpose is to keep the Commission informed about significant developments in international economics and trade, and to maintain the Commission's readiness to carry out its responsibility to provide technical information and advice on international trade matters to policymakers in the Congress and the Executive branch. The *Review* is available to Government officials outside the Commission on a request basis. Inquiries or comment on items appearing in the *Review* may be made directly to the author, or to:

Editor, *International Economic Review*
Trade Reports Division/OE, Room 602
U.S. International Trade Commission
500 E Street SW., Washington, DC 20436
Telephone (202) 252-1255

# CONTENTS

# INTERNATIONAL ECONOMIC COMPARISONS

The U.S. economy enters its seventh year of uninterrupted growth next month with highly favorable current economic indicators and short-term projections. Unemployment is low, inflation appears to be under control, and the export sector may be gaining at the expense of consumer spending. After years of mistaken calls for a new recession, forecasters now prefer to specify what event or policy might trigger an economic downturn, rather than to predict one outright.

The overall panorama of Western economies looks equally encouraging. The current growth momentum of leading industrialized countries, coupled with a commitment to expansionary economic policies and cooperative efforts to keep inflation under check and reduce international trade imbalances, points to adequate assurances of sustained economic and trade expansion at least through 1989. The contraction that occurred in the Japanese and West German economies during the second quarter of 1988 has not altered the consensus view that business expansion will continue in these two key industrialized countries. (See Economic growth, under *Forecasts*.)

But medium- and long-term analyses are characterized by uncertainty. The high U.S. fiscal and external debts are historically unparalleled and none of the alternative ways of eliminating them promises problem-free success. A tax increase would be recessionary and thus might actually result in reduced tax revenues and a larger fiscal deficit. Economists agree that if another recession occurs during the next 4 years, the new administration would have trouble dealing with it.

## Economic Growth

The rate of real economic growth (latest available quarterly Gross National Product [GNP] or Gross Domestic Product [GDP] growth annualized) was 3.9 percent in Canada, 2.4 percent in France, 3.6 percent in Italy, -3.9 percent in Japan, 1.8 percent in the United Kingdom, 3.0 percent in the United States, and -0.7 percent in West Germany. The average growth rate for the "Group of 7" (using 1986 GDP's as weights) was 1.14 percent. The 3.9-percent decline in Japan's GNP during the second quarter of 1988 appears to be a statistical aberration.

## Industrial Production

U.S. industrial production in September remained at virtually the same level as that in August. In 1988, the monthly index of U.S. industrial output had shown an unbroken increase until August.

The annual rates of industrial growth in the major industrialized countries, calculated by comparing the latest available monthly output with the output in the corresponding month of the previous year, were as follows: Canada, 6.4 percent; France, 2.9 percent; Italy, -0.9 percent; Japan, 11.4 percent; the United Kingdom, 3.0 percent; the United States, 5.3 percent; and West Germany, 3.1 percent.

The following tabulation shows average annual rates of increase in manufacturing output per hour in the G-7 countries:

| *Country* | *1960-1987* | *1987* |
|---|---|---|
| United States ..... | 2.8 | 2.8 |
| Canada ........... | 3.3 | 1.7 |
| Japan ............ | 7.7 | 4.1 |
| France ........... | 5.1 | 3.7 |
| Italy .............. | 5.7 | 3.7 |
| United Kingdom .... | 3.7 | 6.9 |
| West Germany .... | 4.5 | 1.3 |

## Passenger Car Ownership

In 1987, the number of passenger cars per 1000 persons was 580 in the United States, 468 in West Germany, 398 in Italy, 385 in France, 360 in the United Kingdom, and 241 in Japan. The relatively low figure in Japan is partially explained by the large-scale substitution of 3-wheel motor scooters for passenger cars, which is widespread in the country.

## Employment

The rate of unemployment in the United States (on a total labor-force basis, including military personnel) declined from 5.5 percent in August to 5.3 percent in September. Excluding the 5.2-percent rate in June 1988, the September rate was the lowest since June 1974.

The national statistical offices of other countries reported the following unemployment rates for August: 8.0 percent in Canada, 10.4 percent in France, 2.6 percent in Japan, 8.0 percent in the United Kingdom, and 8.8 percent in West Germany. The July unemployment was 16.4 percent in Italy. In all these countries except Italy, unemployment declined compared with that of 1 year ago. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the back of this issue.)

The following tabulation shows the percentage growth of total population and civilian working-age population from 1970 to 1987 in the G-7 countries:

| Country | Population | Civilian working age population |
|---|---|---|
| United States | 18.9 | 33.3 |
| Canada | 15.0 | 36.5 |
| Japan | 18.1 | 23.3 |
| France | 9.6 | 16.6 |
| Italy | 6.6 | 15.0 |
| United Kingdom | 2.3 | 7.1 |
| West Germany | 0.8 | 11.5 |

The civilian working-age population grew faster than total population in all these countries over the past 18 years. This was mainly because of persons born during the 1946-64 baby-boom reaching working age.

The following tabulation shows the ratios of civilian employment to civilian working-age (16 years and over in the United States) population in the G-7 countries in 1970, 1980, and 1987:

| Country | 1970 | 1980 | 1987 |
|---|---|---|---|
| United States | 57.4 | 59.2 | 61.5 |
| Canada | 54.5 | 59.3 | 60.3 |
| Japan | 63.8 | 61.3 | 60.1 |
| France | 56.0 | 53.5 | 49.7 |
| Italy | 47.4 | 46.1 | 44.4 |
| United Kingdom | 59.2 | 58.1 | 56.6 |
| West Germany | 56.6 | 51.7 | 49.4 |

The ratio has increased only in North America over these years. According to the Bureau of Labor Statistics, fast growth in employment has outstripped population growth in North America during the 1970's and 1980's. In contrast, the ratios have declined in Japan and Europe because population growth, although slower than in North America in both areas, has outpaced growth in employment.

## Prices

The seasonally adjusted U.S. Consumer Price Index increased 0.3 percent in September, following a 0.4-percent increase in August. The seasonally adjusted U.S. Producers Price Index rose 0.4 percent in September, following a 0.6-percent rise in August. Most economists consider inflation well under control and anticipate only a 4.1-percent rise in the Consumer Price Index during the full year of 1988.

The average rate of inflation during the 1-year period ending in August 1988 was 4.0 percent in Canada, 2.7 percent in France, 5.0 percent in Italy, 0.7 percent in Japan, 5.7 percent in the United Kingdom, 4.0 percent in the United States, and 1.2 percent in West Germany.

## Forecasts

### *Economic growth*

According to Blue Chip Economic Indicators, the U.S. economy will expand by 3.5 percent during July-December 1988, 4.0 percent in the full year of 1988, and by 2.5 percent in 1989. Blue Chip polls the projections of 61 leading economists on the U.S. economic outlook. The average deviation between the annual GNP consensus forecasts of Blue Chip economists and actual growth rates was 14.2 percent during 1983-87.

The view of Japan's leading forecasters is that the country's economy will expand by 5.0 percent during fiscal year 1988 (April 1988-March 1989). Capital spending adjusted for inflation is forecast to grow by an unprecedented 13.5 percent over the period. Despite the 0.7-percent decline in West Germany's GNP during the second quarter of 1988, the West German Government projects a strong 3.5-percent growth in the country's real economic growth for the full year of 1988. Forecasters at Data Resources Inc. (DRI) believe that West Germany's real GNP will expand by 3.0 percent in 1988 before slowing to 2.2 percent in 1989.

### *Population*

The following tabulation shows mid-1988 population in the G-7 countries, projections by the Washington-based Population Reference Bureau for the year 2020, and the percentage change over the period:

| Country | Mid-1988 (Millions) | Year 2020 | Percentage change |
|---|---|---|---|
| United States | 246.1 | 296.6 | +20.5 |
| Canada | 26.1 | 30.2 | +15.7 |
| Japan | 122.7 | 131.7 | + 7.3 |
| France | 55.9 | 58.7 | + 5.0 |
| Italy | 57.3 | 52.6 | - 8.2 |
| United Kingdom | 57.1 | 56.6 | - 0.9 |
| West Germany | 61.2 | 51.5 | -15.8 |

Pro-natalists welcome the expansion in the United States and bemoan the decline of West European population over the next three decades. They consider humans the ultimate production resource and many of them believe that only further expansion in the population of industrialized countries can assure global economic prosperity and the survival of democracy as a form of social organization. Pro-natalists advocate policies to encourage an immediate increase in birth rates in the developed countries. Taking a diametrically opposed view, neo-Malthusians argue for zero global population growth as soon as possible to avoid an irreversible upset between man and his environment, the outbreak of famine, wars, and disease. They urge the most prosperous countries to set a good example in arresting the demographic snowball before it is too late. In West Germany, where the projected decline in population is proceeding at the fastest pace, public opinion appears to be divided along the same lines.

## U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit increased from $9.5 billion in July to $12.2 billion in August. The August deficit was 4.0 percent below the $12.7 billion average monthly deficit registered during the previous 12-month period, and 19.3 percent below the $15.1 billion deficit of August 1987. During August 1987–July 1988, the deficit was at its highest in October 1987 ($15.6 billion) and at its lowest ($9.5 billion) in July 1988. The cumulative January–August deficit declined from $113.4 billion in 1987 to $92.3 billion in 1988. The following tabulation shows the year-to-date percentage changes in U.S. exports, imports, and the trade balance:

| *Item* | *Jan.-Aug. 1986 to Jan.-Aug. 1987* | *Jan.-Aug.1987 to Jan.-Aug. 1988* |
|---|---|---|
| Exports ... | + 8.2 | +28.7 |
| Imports ... | +10.1 | + 9.3 |
| Balance .. | +13.0 | -18.6 |

Both exports and imports set new monthly records in August. In the largest commodity group, machinery and transport equipment, both U.S. exports and imports increased from July to August. Since exports increased faster than imports, the U.S. deficit in this product category declined from $5.5 billion in July to $5.0 billion in August. Machinery and transport equipment exports increased faster than imports also on a year-to-date basis. As a result, the U.S. deficit in this product category declined from $49.3 billion in January–August 1987 to $42.5 billion in January–August 1988.

U.S. crude petroleum imports increased from 1,135 million barrels during January–August 1987 to 1,239 million barrels during January–August 1988. However, the unit value of these shipments dropped from $17.4 to $15.5 per barrel over the period and the total value of shipments declined from $19.8 billion to $19.2 billion. The U.S. surplus in agricultural trade soared from $3.0 billion during the first 8 months of 1987 to $8.4 billion during the corresponding period of 1988.

During January–August 1988, the annualized deficit in trade with Japan was $52.7 billion, appreciably lower than the $59.8 billion deficit registered in 1987. The U.S. shortfall in trade with the EC showed an annualized rate of $13.5 billion, also considerably lower than the $24.3 billion deficit recorded in 1987. The U.S. deficit declined in trade with the newly industrialized countries of Asia, Canada, and Mexico too.

Some skeptics suggest that appreciation of the dollar on foreign-exchange markets during the spring and the summer may in part be responsible for the lower average monthly U.S. trade deficit during 1988. The explanation is based on the "reverse J-curve effect." The theory of "J-curve" postulates that depreciation in a country's currency will temporarily worsen its trade deficit. This occurs because substitution away from relatively more expensive imports is slow and does not initially offset the increase in their price. Thus, the value of imports continues to rise at first, even as the volume declines, and this rise in import values exceeds the increase in export earnings in the short run. Also, the substitution toward the now cheaper U.S. exports on the part of foreign buyers is slow (see *IER*, June 1986.) The hypothesis of the "reverse J-curve effect" turns this argument around to show that the immediate effect of currency appreciation is a reduction in the country's trade deficit; the initial decrease in import prices exceeds the rate at which imports are substituted for domestic products and the decline in export earnings is slow to materialize. In the smoke-and-mirrors world of macro-economic complexities it is difficult to verify the validity of this hypothesis about recent U.S. trade statistics.

## INTERNATIONAL TRADE DEVELOPMENTS

### Mexico's Outgoing Administration Defends Its Economic Policies

In his last annual State of the Nation Address delivered this September, Mexican President Miguel de la Madrid defended the economic policies followed during his 6 years in office. De la Madrid's term ends at the end of November. The President emphasized that the austerity measures characterizing his term were needed to restore Mexico's economic health from the crisis that existed when he took over in 1982. In his words: "The sacrifice of these years in austerity hasn't been in vain. We have laid the foundation of a sustained, efficient and more equitable growth."

De la Madrid's listing of his administration's accomplishments included reducing the Federal budget deficit as a share of the GDP from 27 percent in 1982 to 20 percent in 1987 and considerably less in 1988. He further claimed credit for phasing out many of Mexico's numerous trade barriers, while keeping up with the country's massive payment obligations on foreign debt. The President said that during his administration debt has grown by $9.2 billion to $100.8 billion. But taking into account the growth of reserves in the same period, this translates into a slight drop in net debt. De la Madrid also took credit for renegotiating the terms of Mexico's debt by achieving lower interest payments to foreigners; for the sale or liquidation of 706 nonprofitable state-owned companies; and for Mexico's historic step of joining the General Agreement on Tariffs and Trade (GATT) in 1986.

The President's speech was criticized principally for understating the deterioration of social conditions during his administration. It is estimated that real wages in Mexico have fallen about 50 percent since he took office.

At the time the Mexican President delivered his final State of the Union Address, his latest economic measures were under increasing strain. These measures are formally known as "The Pact of Economic Solidarity," suggesting that they represent an accord between the four sectors of the economy: Government, business, labor, and farmers. The pact was launched in December 1987 and contained a mixture of provisions aimed primarily at fighting inflation. At the outset these included a freeze on wages and on the prices of publicly provided services (such as petroleum, gas, electricity, telephone, air travel, sugar, and fertilizers) and voluntary price controls for other goods.

On March 1, 1988, the Government followed with a second round of measures abruptly halting its 4-year policy of constant devaluations and temporarily freezing the exchange rate at 2,280 pesos to the dollar. Officials subsequently extended this fixed peso-dollar rate in May, June, and most recently in August through the end of November, which is also the end of the administration's term. Officials extended other anti- inflationary measures too, such as the freeze on wages and on publicly provided services. In addition, this year's measures included steep reductions in Government spending, tax cuts, and further efforts to liberalize foreign trade.

The fixed exchange rate has become the pact's most controversial aspect. Early in 1988, the peso was widely believed to be undervalued. However, the initial cushion of undervaluation that gave a competitive edge to exporters and that kept imports in check, quickly disappeared. As the year progressed, the increasingly overvalued peso prompted a burst in imports and has depressed exports, narrowing Mexico's trade surplus. Capital flight from the country has also resumed following a period of repatriations, and Mexico's gross reserves fell from an all-time high of $15.7 billion in the fall of 1987 to $10.2 billion by September 1988. According to critics, the fixed exchange rate and the administration's fast-paced trade liberalizing measures share the blame for the nation's worsening external economic position. In addition, critics blame de la Madrid's spending cuts for Mexico's ongoing economic recession (*IER*, October 1987 and February 1988), and the extended wage freeze for further depressing the workers' purchasing power this year. According to some other critics, however, the spending cuts haven't gone far enough.

Whether the critics are right or not, it cannot be disputed that the program made dramatic progress in bringing down inflation, which was its principal objective. The annual rate of inflation for 1988 is expected to drop to about 60 percent from a historic peak of 159 percent in 1987.

## Japan Studies Free-Trade Agreement With the United States; Prepares for a Greater Role in Asia

In a recent paper, Japan's Ministry of International Trade and Industry (MITI) suggests that Japan should take on greater responsibilities for contributing to the global economic system. The analysis, prepared by a special team within MITI set up to explore options for greater coordination in the Asia-Pacific region, contains a preliminary set of recommendations for a more positive Japanese role in world affairs, particularly in the Asia-Pacific region. Rather than advocating a series of formal free-trade agreements (FTA's), however, MITI calls for greater integration in the region through intensified efforts at all levels. According to MITI, "In every field in which cooperation is possible it is important that there be . . . a steady buildup of results directed toward realistic goals."

MITI's interim report uses more straightforward and stark language than has previously been the case in Japanese Government documents. The report says that rising protectionism, the strains of dynamic but lopsided growth, and political transitions within various countries of the Asia-Pacific region—such as Korea, the Philippines, Hong Kong, and Taiwan—call for more forceful and farsighted diplomatic management than has been the case in the recent past. MITI claims that "it is important to swiftly remove the instability that is created when vision is lacking" and suggests that such leadership must come from both the United States and Japan, given the United States' current budget crisis and large trade imbalance. The Ministry notes that 60 percent of the United States' deficit in merchandise trade in 1987 was attributable to Japan and the newly industrializing economies (NIE's) of Asia—Korea, Taiwan, Hong Kong, and Singapore.

Pointing to the continued economic dynamism of Asia and the high rates of growth in its exports, competitiveness, and integration, MITI predicts that the Asia-Pacific region will increasingly play a major role in world economic affairs. MITI urges Japan to take on a greater share of the burden of promoting economic growth and improving diplomatic relations in the region as part of a larger effort to strengthen the global economic system. The paper calls for expanded Japanese imports of Asia-Pacific products, more active overseas development assistance, debt relief measures for Latin America, greater overseas direct investment and technology transfer by the private sector, and more assertive diplomatic efforts in countries such as Korea and the Philippines.

MITI also calls upon the more advanced economies of Asia, including Taiwan and Korea, to liberalize their economies and to stimulate domestic demand. At the same time it warns that the NIE's must not be pushed too hard to undertake reforms, such as opening their markets to foreign goods or allowing their currencies to appreciate. Such pressure may ultimately prove counterproductive, MITI asserts, undermining larger political and economic interests of the United States and Japan. Countries such as Korea depend upon exports for more than one-half of their national income, MITI points out, and at present the United States absorbs more than 40 percent of the exports of many Asian countries. At the same time, the Asian NIE's have become more important markets for U.S. exports than the three major Latin American countries (Argentina, Brazil, and Mexico), MITI claims, accounting for nearly $23 billion in U.S. exports last year.

MITI's preliminary assessment is part of a series of studies now underway within the Japanese Government to examine the idea of a U.S.-Japan FTA, a U.S.-Japan-Asia FTA, and other options for fostering economic integration within the dynamic Asia-Pacific region. The Japanese Government began to examine the issue in greater depth in early 1988, partly in response to overtures regarding a possible U.S.-Japan FTA by U.S. Ambassador to Japan Mike Mansfield and Senate Majority Leader Robert Byrd. The studies also represent an effort by Japan to define a more assertive role in Asia, both to counter regional trading blocs in North America and Europe and to consolidate the position of Japanese businesses. Japanese companies have been aggressively investing overseas and purchasing from abroad in the wake of the yen's sharp appreciation.

Despite the fact that many experts in the United States have been cool to the idea of negotiating a U.S.-Japan FTA agreement, Japan appears to be studying the concept, with a view towards presenting the next U.S. administration with proposals. At least four separate studies are currently underway within the Japanese Government: MITI's study is continuing, as are studies by Japan's Economic Planning Agency, the Ministry of Finance, and the Ministry of Foreign Affairs. The private sector also has several studies underway, and both business and academia are likely to start taking a more active role in the Japanese Government's examination of the issue. While recognizing the difficulty of negotiating a bilateral FTA with the United States, the *Nihon Keizai* recently reported that in January Japan might propose the immediate creation of a U.S.-Japan dispute settlement panel, modeled after the dispute settlement mechanisms contained in the U.S.-Canada FTA agreement and the U.S.-Mexico framework arrangement.

No studies on the FTA concept are currently in progress within the U.S. Government, although the U.S. International Trade Commission recently completed a summary of views of trade experts on the advisability of entering into negotiations toward a U.S.-Japan FTA. (The report, USITC Publication No. 2120, may be obtained by calling (202) 252-1807.) A majority of the experts participating in the Commission's study believed that the United States would gain little in terms of increased U.S. access as a result of such negotiations. However, some claimed that there might be benefits if those negotiations were used to put the relationship on a sounder footing and to force a reassessment of U.S.-Japan trade relations against the backdrop of larger political and economic concerns.

As a followup to the Commission's study, in a recent letter to Prime Minister Takeshita, Senator Byrd called for a joint study to recommend the outlines of a broad agreement with Japan that would include trade in goods and services, as well as financial matters, exchange rates, overseas development assistance, and defense burden sharing. At press time, Senator Byrd had attached an amendment to the Senate's tax bill requiring the Departments of State and Treasury and the Office of the United States Trade Representative to develop a joint report to the Congress by July 1, 1989. Citing a need to develop a closer, more stable relationship with Japan, Senator Byrd asked that the report contain recommendations on how to work towards the realization of U.S. economic and strategic objectives in a more comprehensive and cooperative manner.

## Long-distance Static Over Telecommunications

*Background*

Japan's market for both domestic and international telecommunications services has been open to foreign firms since the enactment of the Telecommunications Business Law in April 1985. At that time, the Government of Japan promised to deregulate its telecommunications market and to allow U.S. companies to contract with businesses in Japan to provide value-added network services (VAN's) as long as there was "no harm to the network" or the user. VAN's are services that use telephone lines or leased circuits to transmit information other than voices, e.g., electronic mail or computer data bases. International VAN's allow companies using different computers to exchange and combine data over international telephone lines. It is estimated that Japan's market for VAN's will be some $400 million per year by the 1990's. As of June 1988, 11 U.S. companies had registered with Japan's Ministry of Posts and Telecommunications (MPT) to provide international VAN services. These companies, many of which have entered into joint ventures with Japanese firms, include IBM, AT&T, Tynnet, Telenet, and McDonnell Douglas.

*Proposal to mandate network interconnection*

Recently the United States has become concerned about Japanese proposals that would set back progress towards deregulation achieved under the market-oriented sector-selective (MOSS) talks. (The MOSS negotiations began in 1985 and resulted in improved transparency of Japanese telecommunications regulations and greater market access for U.S. companies.) Specifically, the United States has expressed its opposition to an MPT proposal to mandate network interconnection and interconnection standards. The MPT proposal would allow firms to use their proprietary protocols within their own network, but they would have to use a unified protocol to interconnect with other networks.

From the U.S. viewpoint, the MPT proposal would limit VAN providers' ability to make independent decisions based on important financial considerations about whether or not to connect to other networks. The United States has stated that Japanese Government intervention in mandating interconnection and interconnection protocols is unacceptable and violates the spirit of the MOSS talks. During bilateral talks in May, Secretary of Commerce C. William Verity, Jr. protested MPT's plan to adopt a unified standard for all VAN operators. He claimed that the proposal would be a major barrier to U.S. companies' ability to compete in the Japanese market because U.S. VAN operators usually construct networks based on their own unique protocols developed at great expense.

VAN providers base their design decisions on their assessment of the marketplace, including revenue potential and associated risks. They also decide which of over 200 different interconnection protocols they will use. The United States believes that the proposed mandatory standards would nullify the extensive research and capital that many U.S. firms, such as IBM, have already invested in order to meet the specific needs of Japanese clients. U.S. firms would have to commit additional time and resources into developing parallel protocols. In addition, network performance and transmission would be slower, and therefore more expensive. U.S. VAN providers are also concerned about the security and confidentiality of networks if external networks and users are allowed to tap onto previously proprietary networks.

Secretary of Commerce Verity sent a letter to MPT Minister Nakayama on July 29, 1988, conveying some of the above concerns about the proposed MPT regulations. Clayton Yeutter, United States Trade Representative, also expressed similar concerns in a letter to Japanese Foreign Minister Sosuke Uno. Both officials stressed that they wanted to see a resolution to the issue as soon as possible. The subject of mandated network interconnections was raised during trade talks in August, but no major progress was made to resolve the issue.

In September, MPT conceded that U.S. VAN suppliers could use their own protocols with regard to connection of computers in VAN's. But MPT apparently would still require suppliers to develop another set of standard protocols for interconnection. U.S. Secretary of Commerce Verity promised to consider the proposals in the near future and negotiations are continuing.

## U.S. Exports; Recent Performance

Policy coordination among the industrialized countries and market forces have pushed the trade-weighted exchange rate of the U.S. dollar down by 50 percent during February 1985 – August 1988. In February 1985 the dollar was worth 263 Japanese yen and 3.44 Deutsch marks; in August 1987 it was worth 142 yen and 1.82 marks. By the fall of 1988, the exchange rates were 134 yen and 1.86 marks. The cheaper dollar was the major factor behind the U.S. export offensive that has gradually gained momentum.

Between 1985 and 1987 overall U.S. exports increased in value by 14.5 percent. For the first 6 months of 1988 the increase was 29.4 percent over that of the corresponding period of 1987. The growth of exports was accompanied by some shifts in terms of both partner destination and domestic regional source of shipments. However, the expansion has not affected the composition of exports by industrial sector.

Recent percentage increases in U.S. exports by trading partners are as follows:

| | Percentage increase | |
|---|---|---|
| Destination | 1985-87 | January-June 1987-88 |
| European Community | 22.5 | 26.2 |
| West Germany | 27.6 | 10.6 |
| United Kingdom | 23.2 | 31.9 |
| Japan | 24.5 | 45.8 |
| Canada | 11.6 | 7.4 |
| Mexico | 7.3 | 33.2 |
| East Asian NIC's[1] | 38.6 | 63.0 |
| Average U.S. exports | 14.5 | 29.4 |

[1] South Korea, Taiwan, Singapore, and Hong Kong.

The tabulation shows that exports to Japan, Mexico, the United Kingdom, and the Asian trading partners increased much faster in 1988 than during the 2-year period of 1985-87, and also much faster than the average 1988 growth of U.S. exports overall. Among the leading U.S. trading partners—Canada, Japan, Mexico, the United Kingdom, and West Germany—the largest increases in the shares of exports between 1985 and 1987 were accounted for by Japan and West Germany, and in 1988 by Mexico and Japan.

The period 1985-87 also saw a change in the regional sources of U.S. exports. Census data, which are reported on a customs district basis, do not identify the origin of exports by State. However, the changes in the importance of customs districts through which exports were channeled indicate shifts that have taken place in U.S. shipments by regional source.

There are 54 customs districts in the United States. The ports experiencing the largest increase in shipments over the 2-year period of 1985-87 were Providence, RI; Minneapolis, MN; Cleveland, OH; and Dallas/Fort Worth, TX. Ports with the greatest declines in shipments were Milwaukee, WI; Duluth, MN; Great Falls, MT; and Wilmington, NC.

In 1987, the four largest ports in the United States in terms of the exports they handled were New York (12.5 percent of the total), Detroit (10.7 percent), Los Angeles (9.3 percent), and Seattle (6.3 percent). Together, the four accounted for $94 billion, or 39 percent, of overall 1987 U.S. exports. The value of U.S. shipments through each of these ports increased markedly between 1985 and 1987 as shown below:

| Customs district | Percentage increase, 1985-87 |
|---|---|
| New York City, NY | 12.3 |
| Detroit, MI | 16.4 |
| Los Angeles, CA | 19.8 |
| Seattle, WA | 29.6 |
| Average U.S. exports | 14.5 |

[1] South Korea, Taiwan, Singapore, and Hong Kong.

Detroit, Los Angeles, and Seattle also gained relative importance among all ports for exports.

The following tabulation (based on one-digit SITC classification) shows that the leading U.S. export industries contributed proportionally to the expansion of exports:

| Description | Percentage share 1985 | Percentage share 1987 | January-July 1987 | January-July 1988 |
|---|---|---|---|---|
| 0 Food and live animals | 9.0 | 7.8 | 7.7 | 8.1 |
| 1 Beverages and tobacco | 1.4 | 1.5 | 1.5 | 1.5 |
| 2 Crude materials—inedible, not fuel | 7.9 | 8.4 | 8.1 | 8.4 |
| 3 Mineral fuels, lubricants, etc | 4.7 | 3.2 | 3.2 | 2.6 |
| 4 Oils & fats—animal & veg products | .7 | .4 | .4 | .5 |
| 5 Chemicals | 10.2 | 10.8 | 11.0 | 10.6 |
| 6 Man'd goods by chief material | 6.7 | 7.3 | 7.3 | 7.5 |
| 7 Machinery and transport equipment | 44.3 | 44.6 | 44.6 | 44.1 |
| 8 Miscellaneous man'd articles | 7.0 | 7.7 | 7.8 | 7.7 |
| 9 Commodities & transactions n.e.c | 8.0 | 8.3 | 8.6 | 9.1 |
| Total U.S. exports | 100.0 | 100.0 | 100.0 | 100.0 |

Machinery and transportation equipment accounted for over 44 percent of U.S. exports throughout the period, and chemicals, for over 10 percent. Agricultural exports (food and live animals) declined, however, from 9.0 percent of total exports in 1985 to 7.8 percent in 1987, and dropped from third to fifth place behind machinery, chemicals, crude materials (excluding petroleum), and special transactions. The other notable alteration in the composition of exports was the decrease in the share of exports of mineral fuels from 4.7 percent in 1985 to 3.2 percent in 1987. This share of exports continued to decline through the first 7 months of 1988, when it fell to 2.6 percent, because of the declining price of petroleum over the period. The value of U.S. petroleum exports fell by nearly 40 percent from 1985 to 1987.

Five 3-digit SITC commodity categories amount to over one-quarter of all U.S. exports: aircraft (6.9 percent of the total), special transactions (6.7 percent), automotive parts and accessories (4.5 percent), computer and office machine parts (3.9 percent), and computers and data processing equipment (3.5 percent.) For all these categories except automotive parts, the 1985–87 increase was greater than that for overall exports. The following industry groups had large (greater than 50-percent) increases between 1985 and 1987: fertilizers (94 percent); certain woodpulp (64 percent); and cigarettes ( 54 percent).

# STATISTICAL TABLES

**Industrial production, by selected countries and by specified periods, January 1985–August 1988**

*(Percentage change from previous period, seasonally adjusted at annual rate)*

| | | | | 1987 | | | 1988 | | 1988 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | 1985 | 1986 | 1987 | II | III | IV | I | II | Mar. | Apr. | May | June | July | Aug. |
| United States .... | 1.9 | 1.1 | 3.8 | 4.3 | 8.7 | 7.1 | 4.0 | 4.5 | 2.7 | 7.4 | 6.4 | 3.6 | 13.0 | 2.6 |
| Canada ......... | 2.8 | .8 | 2.7 | 5.3 | 5.8 | 4.4 | 4.2 | 3.1 | 2.9 | 5.9 | 4.8 | 1.9 | 1.9 | ([1]) |
| Japan. .......... | 3.7 | -.3 | 3.4 | -.8 | 15.2 | 15.7 | 13.5 | -1.0 | 6.6 | -10.2 | -24.7 | 47.8 | -8.2 | ([1]) |
| West Germany ... | 3.8 | 2.2 | 2 | -1.3 | 2.2 | 2.9 | 6.2 | -2.0 | 21.3 | -18.5 | -3.4 | 18.7 | -7.7 | ([1]) |
| United Kingdom .. | 4.7 | 1.4 | 4.8 | 3.5 | 6.3 | 3.8 | 1.1 | 3.5 | 23.5 | 19.3 | 4.5 | 4.5 | 4.5 | ([1]) |
| France .......... | 6 | .9 | 2.1 | 6.7 | 2.6 | 3.9 | 2.6 | 1.3 | 0 | -10.8 | 12.0 | 25.1 | ([1]) | ([1]) |
| Italy ............ | 1.2 | 2.7 | 3.9 | 8.1 | -10.8 | 14.0 | 11.1 | -3.9 | 12.8 | 34.2 | -27.0 | 5.8 | 39.9 | ([1]) |

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Oct. 7, 1988 and, *Federal Reserve Statistical Release*, Industrial Production, Board of Governors of the Federal Reserve System, Sept. 14, 1988.

**Consumer prices, by selected countries and by specified periods, January 1985–August 1988**

*(Percentage change from previous period, seasonally adjusted at annual rate)*

| | | | | 1987 | | | 1988 | | 1988 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | 1985 | 1986 | 1987 | II | III | IV | I | II | Mar. | Apr. | May | June | July | Aug. |
| United States .... | 3.5 | 1.9 | 3.7 | 4.9 | 3.9 | 3.6 | 3.4 | 4.8 | 6.4 | 5.3 | 4.2 | 4.2 | 5.2 | 5.2 |
| Canada. ........ | 4.0 | 4.2 | 4.4 | 5.4 | 4.4 | 3.5 | 3.3 | 4.8 | 6.0 | 4.9 | 6.1 | 3.0 | 3.9 | 4.9 |
| Japan ........... | 2.0 | .6 | .1 | 5.0 | -.8 | 1.1 | -2.1 | 2.8 | 4.9 | 6.1 | 1.2 | -2.3 | -2.3 | ([1]) |
| West Germany ... | 2.2 | -.2 | .3 | 1.4 | 1.5 | 0 | .8 | 1.8 | 2.0 | 2.1 | 1.8 | .9 | 2.1 | 3.2 |
| United Kingdom .. | 6.1 | 3.4 | 4.1 | 2.3 | 3.9 | 4.9 | 2.5 | 6.1 | 4.5 | 7.2 | 5.9 | 8.3 | 7.8 | 10.0 |
| France .......... | 5.8 | 2.5 | 3.3 | 2.3 | 2.7 | 2.4 | 2.3 | 2.8 | 2.8 | 2.7 | 2.7 | 3.3 | 4.3 | 4.4 |
| Italy ............ | 8.6 | 6.1 | 4.6 | 4.5 | 6.5 | 5.7 | 3.2 | 4.5 | 5.4 | 5.1 | 4.1 | 5.0 | 6.3 | 8.6 |

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Oct. 7, 1988, and statistics provided by the Bureau of Labor Statistics, U. S. Department of Labor, September 1988.

**Unemployment rates,[1] by selected countries and by specified periods, January 1985–September 1988**

*(In percent)*

| | | | | 1987 | | | 1988 | | 1988 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | 1985 | 1986 | 1987 | II | III | IV | I | II | Apr. | May | June | July | Aug. | Sept. |
| United States .... | 7.2 | 7.0 | 6.2 | 6.3 | 6.0 | 5.9 | 5.7 | 5.5 | 5.4 | 5.6 | 5.3 | 5.4 | 5.6 | 5.4 |
| Canada ......... | 10.5 | 9.6 | 8.9 | 9.1 | 8.8 | 8.2 | 7.9 | 7.7 | 7.7 | 7.8 | 7.6 | 7.9 | 8.0 | ([2]) |
| Japan. .......... | 2.6 | 2.8 | 2.9 | 3.1 | 2.8 | 2.7 | 2.7 | 2.5 | 2.6 | 2.6 | 2.4 | ([2]) | ([2]) | ([2]) |
| West Germany ... | 7.5 | 7.0 | 6.9 | 6.9 | 7.0 | 7.0 | 6.9 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | ([2]) |
| United Kingdom .. | 11.2 | 11.2 | 10.3 | 10.6 | 10.0 | 9.5 | 9.0 | 8.6 | 8.8 | 8.6 | 8.4 | 8.2 | 8.0 | ([2]) |
| France .......... | 10.4 | 10.6 | 10.8 | 10.9 | 10.8 | 10.6 | 10.6 | 10.6 | 10.5 | 10.6 | 10.7 | 10.8 | ([2]) | ([2]) |
| Italy. .......... | 6.0 | 7.5 | 7.9 | 7.8 | 8.1 | 8.0 | 8.0 | 8.0 | ([2]) | ([2]) | ([2]) | ([2]) | ([2]) | ([2]) |

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S. rate.
[2] Not available.

Note.—Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: Statistics provided by Bureau of Labor Statistics, U.S. Department of Labor, October 1988.

**Trade balances, by selected countries and by specified periods, January 1985–August 1988**

*(In billions of U.S. dollars, f.o.b. basis, at an annual rate)*

| | | | | 1987 | | | 1988 | | 1988 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Country* | *1985* | *1986* | *1987* | *II* | *III* | *IV* | *I* | *II* | *Mar.* | *Apr.* | *May* | *June* | *July* | *Aug.* |
| United States[1] ... | -132.8 | -155.1 | -170.3 | -169.5 | -171.6 | -171.9 | -149.6 | -133.1 | -140.4 | -123.7 | -117.1 | -158.6 | -113.7 | -146.1 |
| Canada ......... | 12.0 | 7.1 | 8.3 | 9.2 | 8.4 | 4.4 | 7.2 | 9.6 | 7.2 | 6.0 | 6.0 | 14.4 | 14.4 | (2) |
| Japan ........... | 55.9 | 92.5 | 96.2 | 94.8 | 89.2 | 91.6 | 100.4 | 86.4 | 99.6 | 93.6 | 78.0 | 86.4 | 93.6 | (2) |
| West Germany ... | 25.3 | 52.6 | 65.7 | 61.2 | 62.8 | 74.0 | 65.2 | 76.8 | 62.4 | 72.0 | 60.0 | 97.2 | 70.8 | (2) |
| United Kingdom .. | -2.6 | -12.6 | -16.9 | -15.6 | -20.0 | -21.2 | -28.4 | -32.4 | -19.2 | -27.6 | -37.2 | -32.4 | -54.0 | -37.2 |
| France .......... | -2.6 | .1 | -5.2 | -8.8 | -4.4 | -4.4 | -2.8 | -4.0 | -3.6 | -4.8 | -3.6 | -3.6 | -7.2 | -16.8 |
| Italy ............ | -12.1 | -2.1 | -8.7 | -12.0 | -6.4 | -10.8 | -11.2 | -10.8 | -22.8 | -6.0 | 0 | -6.0 | (2) | (2) |

[1] Exports, f.a.s. value, adjusted; imports, C.I.F., adjusted. Beginning with 1986, figures include previously undocumented exports to Canada. Data for individual quarters do not reflect similar adjustments.
[2] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, October 7, 1988, and *Advance Report on U. S. Merchandise Trade*, U.S. Department of Commerce, October 13, 1988.

**U.S. trade balance[1], by major commodity categories, by selected countries, and by specified periods, January 1985–August 1988**

*(In billions of U.S. dollars, c.i.f. value basis for imports)*

| | | | | 1987 | | | 1988 | | 1988 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Item* | *1985* | *1986* | *1987* | *II* | *III* | *IV* | *I* | *II* | *Mar.* | *Apr.* | *May* | *June* | *July* | *Aug.* |
| Commodity categories: | | | | | | | | | | | | | | |
| Agriculture ...... | 9.6 | 4.5 | 7.0 | .7 | 2.1 | 3.2 | 3.0 | 3.3 | 1.2 | 1.2 | 1.2 | .9 | 9 | .8 |
| Petroleum and selected products, unadj .......... | -45.9 | -31.8 | -39.5 | -9.6 | -11.7 | -10.1 | -9.7 | -9.9 | -2.9 | -3.1 | -3.6 | -3.2 | -3.1 | -3.4 |
| Manufactured goods ....... | -102.0 | -134.3 | -146.1 | -38.1 | -36.3 | -36.2 | -35.0 | -35.5 | -10.5 | -10.9 | -11.0 | -13.6 | -12.8 | -12.6 |
| Selected countries: | | | | | | | | | | | | | | |
| Western Europe .. | -23.3 | -28.2 | -27.9 | -7.8 | -7.0 | -6.9 | -4.0 | -3.9 | -.9 | -.8 | -1.2 | -1.9 | -2.3 | -1.4 |
| Canada[2] ......... | -21.7 | -23.0 | -11.5 | -2.3 | -2.8 | -3.1 | -3.8 | -4.4 | -1.1 | -1.9 | -1.1 | -1.1 | -1.1 | -.5 |
| Japan ........... | -46.5 | -55.3 | -58.0 | -15.3 | -13.8 | -14.5 | -13.1 | -12.9 | -4.5 | -4.1 | -4.4 | -4.4 | -4.4 | -4.8 |
| OPEC, unadj ..... | -10.2 | -8.9 | -13.7 | -3.1 | -4.6 | -3.3 | -2.6 | -3.1 | -.7 | -.9 | -1.1 | -1.1 | -.9 | -1.2 |
| Unit value (per barrel) of U.S. imports of petroleum and selected products, unadj. . | $26.59 | $15.02 | $18.12 | $18.24 | $19.01 | $18.40 | $16.35 | $16.11 | $15.70 | $15.69 | $16.40 | $16.19 | $15.77 | $15.15 |

[1] Exports, f.a.s. value unadjusted; imports c.i.f. value unadjusted.
[2] Beginning with February 1987, figures include previously undocumented exports to Canada.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, Oct. 13, 1988.

**Money-market interest rates,[1] by selected countries and by specified periods, January 1985-September 1988**

*(Percentage, annual rate)*

| Country | 1985 | 1986 | 1987 | 1987 II | 1987 III | 1987 IV | 1988 I | 1988 II | 1988 Apr. | May | June | July | Aug. | Sept. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States ...... | 8.3 | 6.5 | 6.8 | 6.8 | 6.8 | 7.6 | 6.7 | 7.6 | 7.2 | 7.8 | 7.9 | 7.3 | 8.7 | 8.2 |
| Canada ........... | 9.7 | 8.6 | 8.4 | 8.0 | 9.2 | 9.0 | 8.7 | 9.2 | 9.0 | 9.3 | 9.3 | 9.6 | 10.2 | (2) |
| Japan ............. | 6.5 | 4.9 | 3.9 | 3.7 | 3.7 | 3.9 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 | 4.0 | 4.2 | (2) |
| West Germany ..... | 5.5 | 4.6 | 4.0 | 3.7 | 4.2 | 4.1 | 3.3 | 3.9 | 3.6 | 3.6 | 4.4 | 5.2 | 5.4 | (2) |
| United Kingdom .... | 12.1 | 10.8 | 9.8 | 9.3 | 10.0 | 9.2 | 8.9 | 8.7 | 8.3 | 7.8 | 9.9 | 10.9 | 12.2 | (2) |
| France ............ | 10.0 | 7.7 | 8.2 | 8.1 | 7.9 | 8.5 | 7.9 | 7.5 | 7.9 | 7.3 | 7.3 | 7.4 | 8.1 | (2) |
| Italy .............. | 15.0 | 12.8 | 11.3 | 10.7 | 11.9 | 11.6 | 11.0 | 10.8 | 10.4 | 11.0 | 10.9 | 11.3 | 10.9 | (2) |

[1] 90-day certificate of deposit.
[2] Not available.
Note.—The figure for a quarter is the average rate for the last week of the quarter.

Source: *World Financial Markets*, Morgan Guaranty Trust Co. of New York, Sept. 9, 1988, and *Federal Reserve statistical release*, Selected Interest Rates, Board of Governors of the Federal Reserve System, Oct. 3, 1988.

**Effective exchange rates of the U.S. dollar, unadjusted and adjusted for inflation differential, by specified periods, January 1985-September 1988**

*(Percentage change from previous period)*

| Item | 1985 | 1986 | 1987 | 1987 II | 1987 III | 1987 IV | 1988 I | 1988 II | 1988 Apr. | May | June | July | Aug. | Sept. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Unadjusted | | | | | | | | | | | | | | |
| Index number .. | 127.0 | 106.0 | 94.1 | 94.1 | 95.2 | 90.3 | 87.5 | 86.5 | 85.8 | 86.1 | 87.6 | 90.1 | 91.7 | 91.3 |
| Percentage change ...... | 3.8 | -16.5 | -11.2 | -3.1 | 1.2 | -5.1 | -3.1 | -1.1 | -1.2 | .3 | 1.7 | 2.9 | 1.8 | -.4 |
| Adjusted: | | | | | | | | | | | | | | |
| Index number .. | 121.7 | 100.9 | 90.2 | 90.5 | 87.0 | 87.4 | 84.9 | 84.1 | 83.3 | 83.7 | 85.3 | 88.1 | 89.8 | 89.6 |
| Percentage change ...... | 1.8 | -17.1 | -10.6 | -2.9 | -3.9 | .5 | -2.9 | -.9 | -1.0 | .5 | 1.9 | 3.3 | 1.9 | -.2 |

[1] 1980-82 average=100.
Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: *World Financial Markets*, Morgan Guaranty Trust Co. of New York, Sept. 9, 1988.

UNITED STATES
INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C. 20436

OFFICIAL BUSINESS

ADDRESS CORRECTION REQUESTED

Postage And Fees Paid
U.S. International Trade Commission

U.S. MAIL

**ADDRESS CHANGE**

- ☐ Remove from List
- ☐ Change as Shown

Please detach address la[illegible] and mail to address [illegible] above.